

FIN622 ON 09-DECEMBER-2012

By HADAYAT U ALLAH SHAHZAD

Objective type was mostly 2009 and 2010 past papers. All the mcqs was from the attached file.....

The subjective portion was like this....

Question No. 24

The ----- company have the following information from the year 2005....

Bonds	Book value	Market value	YTM
A	130,000	128,000	13.5%
B	250,000	265,000	11.4%
C	320,000	325,000	12%

Calculate weighted average cost of debt on market base value if corporate tax rate 12%.

Question No. 25

Delta limited company has the cash flows 15000, 20,000, 23500, 18000 respectively. Calculate cash flows if discount 12% and initial investment 52000. Comments on the value. Can this project accepted?

ANSWER:

As we know...

NPV= sum of cash flows-initial investment and
Sum of cash flow= $C/(1+i)^n$ thus

Sum of cash flow=

$15000/(1+0.12)^1+15000/(1+0.12)^2+20000/(1+0.12)^3+23500/(1+0.12)^4$

Solve it and calculate the total cash flows than deduct initial investment from it. The answer will be positive so the project will be accepted.

Question No. 26

One project has 25 months period and 2nd 36 months. Its investment is 500,000 on both. The company' policy is to select the project on the basis on period. You will justify which project should be benefit for the firm on the basis on periods?

ANSWER:

According to payback period the lesser period is most beneficial for the firms investment because its return will be invested in others project that will also give the benefit to the firms instead of long project. In this scenario the project' price is 500000 on both project but project which congaing 2.5 years is best for the investment because 2.5 years period is considered suitable for the firms in regarding payback periods.

Question No. 27

How does probability analysis assists in evaluating the financial feasibility of the projects. Discuss as a financial analyst.

ANSWER:

Probability analysis and technical analysis provide true picture to the finance. Historical analysis stress on the economic conditions of the area and investment activities held in the firms, stock exchange and in the market. Probability analysis depicts deeply into the roots of finance and provides a fair and correct picture of internal and external resources of the firms. It includes in itself not only the firms risk but also the market risk. It describes the degree of risk in the form of variance and standard deviation on the basis of probability. It covers the reasons also which disturbing the investing criteria in a period and suggested to solve them with suitable solutions keeping in mind the inflation and beta risk rate of the market. When firms want to evaluate their securities in the market on the basis of project, they first want to know the financial feasibility of the project and they prefer probability analysis rather than technical and historical analysis which containing only supply and demand aspects in itself. So we can say that probability analysis help the financial analyst to evaluate the financial feasibility of the projects.

Question No. 28

How capital pricing assets model help the investors to evaluate the projects and why the investors rely on it?

ANSWER:

A model that describes the relationship between risk and expected return and that is used in the pricing of risky securities.

The general idea behind CAPM is that investors need to be compensated in two ways: time value of money and risk. The time value of money is represented by the risk free (rf) rate in the formula and compensates the investors for placing money in any investment over a period of time. The other half of the formula represents risk and calculates the amount of compensation the investor needs for taking on additional risk. This is calculated by taking a risk measure (beta) that compares the returns of the asset to the market over a period of time and to the market premium. In short it covers all the aspect which is need to calculate the prices of the securities and that is why the investors consider it better than any other method to evaluate the securities.